Note 1. Significant Accounting Policies

A. Basis of Presentation

The Departmental consolidated financial statement has been prepared to report the financial position and results from operations of the Department of Transportation (DOT), as required by the Chief Financial Officers Act of 1990 (CFO Act), as amended by the Federal Financial Management Act of 1994 (FFMA), Title IV of the Government Management Reform Act of 1994 (GMRA). The statement has been prepared from the books and records of DOT in accordance with Office of Management and Budget (OMB) requirements for form and content for entity financial statements and DOT's accounting policies and procedures. OMB Bulletin No. 01-09, Form and Content of Agency Financial Statements, has been used to prepare the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. They are different from the financial reports prepared pursuant to OMB directives that are used to monitor and control the use of budgetary resources.

The Balance Sheet presents agency assets and liabilities, and the difference between the two, which is the agency net position. Agency assets include both entity assets (those which are available for use by the agency) and non-entity assets (those which are managed by the agency but not available for use in its operations). Agency liabilities include both those covered by budgetary resources (funded) and those not covered by budgetary resources (unfunded).

The Statement of Net Cost presents the gross costs of programs less earned revenue to arrive at the net cost of operations for both programs and for the agency as a whole.

The Statement of Changes in Net Position reports beginning balances, budgetary and other financing sources, and net cost of operations, to arrive at ending balances.

The Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of the period. Recognition and measurement of budgetary information reported on this statement is based on budget terminology, definitions, and guidance in OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, dated July 2003.

The Statement of Financing is intended to be a bridge between an entity's budgetary and financial (i.e., proprietary) accounting. The Statement of Financing illustrates the relationship between net obligations derived from an entity's budgetary accounts and net cost of operations derived from an entity's proprietary accounts by identifying and explaining key differences between the two numbers. Since DOT custodial activity is incidental to Departmental operations and not material, a Statement of Custodial Activity was not prepared. However, sources and dispositions of collections have been disclosed in Note 19 to the financial statements.

The Department is required to be in substantial compliance with all applicable accounting principles and standards established, issued, and implemented by the Federal Accounting Standards Advisory Board (FASAB), which is recognized by the American Institute of Certified Public Accountants (AICPA) as the entity to establish Generally Accepted Accounting Principles (GAAP) for the Federal Government. The Federal Financial Management Improvement Act (FFMIA) of 1996 requires the Department to comply substantially with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the U.S. Government Standard General Ledger at the transaction level.

B. Reporting Entity

DOT serves as the focal point in the Federal Government for the Coordinated National Transportation Policy. It is responsible for ensuring the safety of all forms of transportation; protecting the interests of consumers; international transportation agreements; conducting planning and research for the future; and helping cities and States meet their local transportation needs through financial and technical assistance.

The Department is comprised of the Office of the Secretary and the DOT Operating Administrations, each having its own management and organizational structure and collectively providing the necessary services and oversight to ensure the best transportation system possible. The Departmental consolidated financial statement represents the financial data, including various trust funds, revolving funds, appropriations and special funds of the following organizations:

Office of The Secretary (OST–includes OST Working Capital Fund)
Federal Aviation Administration (FAA)
Federal Highway Administration (FHWA)
Federal Motor Carrier Safety Administration (FMCSA)
Federal Railroad Administration (FRA)
National Highway Traffic Safety Administration (NHTSA)
Maritime Administration (MARAD)
Federal Transit Administration (FTA)
Bureau of Transportation Statistics (BTS)
Surface Transportation Board (STB)
Office of Inspector General (OIG)
Research and Special Programs Administration (RSPA–includes Volpe National Transportation System Center)

Effective March 1, 2003, the U.S. Coast Guard (USCG) and the Transportation Security Administration (TSA) were transferred from DOT to the newly created Department of Homeland Security (DHS) as mandated under Public Law (P.L.) 107-296, the Homeland Security Act of 2002. The Departmental consolidated financial statements contain their activities through the date of the transfers.

The Saint Lawrence Seaway Development Corporation (SLSDC) is also an entity of DOT. However, since it is subject to separate reporting under the Government Corporation Control Act and the dollar value of its activities is not material to Departmental totals, SLSDC's financial data have not been consolidated in the DOT financial statements. However, condensed information about SLSDC's financial position is included in Note 20.

C. Budgets and Budgetary Accounting

DOT follows standard Federal budgetary accounting policies and practices in accordance with OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, dated July 2003. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. Each year, Congress provides each Operating Administration within DOT appropriations to incur obligations in support of agency programs. For FY 2004, the Department was accountable for trust fund appropriations, general fund appropriations, revolving funds and borrowing authority. DOT recognizes budgetary resources as assets when cash (funds held by Treasury) is made available through warrants and trust fund transfers.

D. Basis of Accounting

Transactions are generally recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

E. Revenues and Other Financing Sources

DOT receives the majority of the funding needed to support all of its programs through appropriations. The Highway Trust Fund, Airport and Airway Trust Fund, and the Treasury General Fund fund some of these appropriations. DOT receives annual, multi-year and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. Additional amounts are obtained from offsetting collections and user fees (e.g., landing and registry fees) and through reimbursable agreements for services performed for domestic and foreign governmental entities. Additional revenue is earned from gifts from donors, sales of goods and services to other agencies and the public, the collection of fees and fines, interest/dividends on invested funds, loans and cash disbursements to banks. Interest income received is recognized as revenue on the accrual basis. Appropriations are recognized as revenues as the related program or administrative expenses are incurred.

F. Funds with the U.S. Treasury and Cash

DOT does not generally maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. The funds with the U.S. Treasury are appropriated, revolving, and trust funds that are available to pay current liabilities and finance authorized purchases. DOT has substantially reduced the number of petty cash (imprest) funds outside the U.S. Treasury to reduce the amount of cash paid outside of Treasury. This reduces the amount of interest that must be paid to borrow funds. Lockboxes have been established with financial institutions to collect payments, and these funds are transferred directly to Treasury on a daily (business day) basis. DOT does not maintain any balances of foreign currencies.

G. Receivables

Accounts receivable consist of amounts owed to the Department by other Federal agencies and the public. Federal accounts receivable are generally the result of the provision of goods and services to other Federal agencies and, with the exception of occasional billing disputes, are considered to be fully collectible. Public accounts receivable are generally the result of the provision of goods and services or the levy of fines and penalties from the Department's regulatory activities. Amounts due from the public are presented net of an allowance for loss on uncollectible accounts, which is based on historical collection experience and/or an analysis of the individual receivables.

Loans are accounted for as receivables after funds have been disbursed. For loans obligated prior to October 1, 1991, loan principal, interest, and penalties receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience, present market conditions, and an analysis of outstanding balances. Loans obligated after September 30, 1991, are reduced by an allowance equal to the present value of the subsidy costs (due to the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans.

H. Inventory and Operating Materials and Supplies

Inventory primarily consists of supplies that are for sale or used in the production of goods for sale. Operating materials and supplies primarily consist of unissued supplies that will be consumed in future operations. Valuation methods for supplies on hand at yearend include historical cost, last acquisition price, standard price/specific identification, standard repair cost, weighted average, and moving weighted average. Expenditures or expenses are recorded when the materials and supplies are consumed or sold. Adjustments for the proper valuation of reparable, excess, obsolete, and unserviceable items are made to appropriate allowance accounts.

I. Investments in U.S. Government Securities

Investments that consist of U.S. Government Securities are reported at cost or amortized cost net of premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the interest or straight-line method. The Department's intent is to hold investments to maturity, unless they are needed to cover losses on loan guarantees, finance programs, or otherwise sustain the operation of the organization. Investments, redemptions, and reinvestments are controlled and processed by the Department of the Treasury.

J. Property and Equipment

DOT agencies have varying methods of determining the value of property and equipment and how it is depreciated. DOT currently has a capitalization threshold of $200,000 for structures and facilities and for internal use software, and $25,000 for other property, plant and equipment. Capitalization at lesser amounts is permitted. Construction in progress is valued at direct (actual) costs plus applied overhead and other indirect costs as accumulated by the regional project material system. The system accumulates costs by project number assigned to the equipment or facility being constructed. The straight line method is generally used to depreciate capitalized assets.

FASAB standards require DOT stewardship assets to be omitted from the Balance Sheet. Information on DOT stewardship assets, as well as stewardship investments, is presented in the Required Supplementary Stewardship Reporting section of this statement.

Effective for FY 2003, FASAB eliminated the category of National Defense Property, Plant and Equipment. This has resulted in MARAD's National Defense Reserve Fleet Vessels now being reported as General Property, Plant and Equipment on the Balance Sheet.

K. Prepaid and Deferred Charges

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

L. Liabilities

Liabilities represent amounts expected to be paid as the result of a transaction or event that has already occurred. Liabilities covered by budgetary resources are liabilities incurred which are covered by realized budgetary resources as of the balance sheet data. Available budgetary resources include new budget authority, spending authority from offsetting collections, recoveries of unexpired budget authority through downward adjustments of prior-year obligations, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior-year balances during the year, and permanent indefinite appropriations or borrowing authority. Unfunded liabilities are not considered to be covered by such budgetary resources. An example of an unfunded liability is actuarial liabilities for future Federal Employees' Compensation Act payments. The Federal Government, acting in its sovereign capacity, can abrogate liabilities arising from other than contracts.

M. Contingencies

The criteria for recognizing contingencies for claims are (1) a past event or exchange transaction has occurred as of the date of the statements; (2) a future outflow or other sacrifice of resources is probable; and (3) the future outflow or sacrifice of resources is measurable (reasonably estimated). DOT recognizes material contingent liabilities in the form of claims, legal action, administrative proceedings and environmental suits that have been brought to the attention of legal counsel, some of which will be paid by the Treasury Judgment Fund. It is the opinion of management and legal counsel that the ultimate resolution of these proceedings, actions and claims, will not materially affect the financial position or results of operations.

N. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Accruals for other leave (e.g., credit hours and compensatory leave) are also recorded in the financial statement. Under the OST Working Capital Fund, the liability for accrued annual leave is a funded item. To the extent current or prior-year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expended as taken.

Air Traffic Controllers covered under the Federal Employees Retirement System (FERS) are eligible, upon retirement, for a sick leave buy back option. Under this option, an employee who attains the required number of years of service for retirement shall receive a lump sum payment for forty percent of the value of his or her accumulated sick leave as of the effective date of retirement.

O. Retirement Plan

For DOT employees who participate in the Civil Service Retirement System (CSRS), DOT contributes a matching contribution equal to 7 percent of pay. On January 1, 1987, FERS went into effect pursuant to P.L. 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which DOT automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired since December 31, 1983, DOT also contributes the employer's matching share for Social Security.

Employing agencies are required to recognize pensions and other post retirement benefits during the employees' active years of service. Reporting the assets and liabilities associated with such benefits is the responsibility of the administering agency, the Office of Personnel Management. Therefore, DOT does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to employees.

P. Comparative Data

Comparative data for the prior year have been presented for the principal financial statements and their related notes.

Q. Use of Estimates

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, expenses, and in the note disclosures. Actual results could differ from these estimates. Significant estimates underlying the accompanying financial statements include (a) the allocation of trust fund receipts by the Office of Treasury's Assessment (OTA), (b) year-end accruals of accounts and grants payable, (c) accrued workers' compensation, and (d) allowance for doubtful accounts receivable. Actual results may differ from these estimates.

Note 2. Non-Entity Assets:

(Dollars in Thousands)

	FY 2004	FY 2003
Intragovernmental:		
Fund Balance with Treasury	$ (20,029)	$ (21,560)
Investments	-	-
Accounts Receivable	-	263
Other	104	104
Total Intragovernmental	$ (19,925)	$ (21,193)
Cash and Other Monetary Assets	$ -	$ -
Accounts Receivable	1,872	2,057
Loans Receivable and Related Foreclosed Property	-	-
Inventory and Related Property	-	-
General Property, Plant and Equipment	-	-
Other Assets	-	-
Total Non-Entity Assets	$ (18,053)	$ (19,136)
Total Entity Assets	68,304,062	71,446,060
Total Assets	$ 68,286,009	$ 71,426,924

Note 3. Fund Balance with Treasury:

(Dollars in Thousands)

Fund Balances:	FY2004 Total	FY 2003 Total
Trust Funds	$ 5,641,157	$ 5,700,034
Revolving Funds	565,957	401,671
Appropriated Funds	22,940,005	22,323,975
Other Fund Types	574,231	830,558
Total	$ 29,721,350	$ 29,256,238

Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 7,919,946	$ 9,292,262
Unavailable	1,192,028	1,008,107
Obligated Balance Not Yet Disbursed	20,609,376	18,955,869
Total	$ 29,721,350	$ 29,256,238

Fund Balances with Treasury are the aggregate amounts of the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. Other Fund Types include uncleared Suspense Accounts, which temporarily hold collections pending clearance to the applicable account, and Deposit Funds, which are established to record amounts held temporarily until ownership is determined.

Note 4. Investments:

(Dollars in Thousands)

As of September 30, 2004: Intragovernmental Securities:	Cost	Amortized (Premium) Discount	Investments (Net)	Other Adjustments	Market Value Disclosure
Marketable	$ 88,269	$ (1,015)	$ 87,254	$ 674	$ 87,928
Non-Marketable:					
Par Value	20,103,444	-	20,103,444	-	20,103,444
Market-Based	351,488	(342)	351,146	-	351,146
Subtotal	$ 20,543,201	$ (1,357)	$ 20,541,844	$ 674	$ 20,542,518
Accrued Interest	75,706		75,706		75,706
Total Intragovernmental	$ 20,618,907	$ (1,357)	$ 20,617,550	$ 674	$ 20,618,224

As of September 30, 2003:

Intragovernmental Securities:	Cost	Amortized (Premium) Discount	Investments (Net)	Other Adjustments	Market Value Disclosure
Marketable	$ 189,059	$ (743)	$ 188,316	$ -	$ 188,316
Non-Marketable:					
Par Value	10,517,891	-	10,517,891	-	10,517,891
Market-Based	14,163,246	(506)	14,162,740	-	14,162,740
Subtotal	$ 24,870,196	$ (1,249)	$ 24,868,947	$ -	$ 24,868,947
Accrued Interest	105,829		105,829		105,829
Total Intragovernmental	$ 24,976,025	$ (1,249)	$ 24,974,776	$ -	$ 24,974,776

Investments in Federal securities include non-marketable par value Treasury securities, market-based Treasury securities, marketable Treasury securities, and securities issued by other Federal entities. Non-Federal securities include those issued by state and local governments, Government-sponsored enterprises, and other private corporations.

Marketable Federal securities can be bought and sold on the open market. Non-marketable par value Treasury securities are issued by the Bureau of Public Debt to Federal accounts and are purchased and redeemed at par exclusively through Treasury's Federal Investment Branch. Non-marketable market-based Treasury securities are also issued by the Bureau of Public Debt to Federal accounts. They are not traded on any securities exchange but mirror the prices of particular Treasury securities trading in the Government securities market. Amortization is done using the interest or straight-line method.

Note 5. Accounts Receivable:

(Dollars in Thousands)

Intragovernmental:	Gross Amount Due	Allowance for Uncollectible Amounts	FY 2004 Net Amount Due	FY 2003 Net Amount Due
Accounts Receivable	$ 189,821	$ 21	$ 189,800	$ 480,287
Accrued Interest	-	-	-	15,118
Total Intragovernmental	$ 189,821	$ 21	$ 189,800	$ 495,405
Public:				
Accounts Receivable	$ 394,298	$ 55,373	$ 338,925	$ 122,901
Accrued Interest	127	-	127	63
Total Public	$ 394,425	$ 55,373	$ 339,052	$ 122,964
Total Receivables	$ 584,246	$ 55,394	$ 528,852	$ 618,369

Allowance for Uncollectible Amounts is based on historical data or actual amounts that are determined to be uncollectible based upon review of individual receivables. Accrued interest includes interest, penalties, and other administrative charges pertaining to accounts receivable.

Note 6. Other Assets

(Dollars in Thousands)

Intragovernmental:	FY 2004	FY 2003
Advances and Prepayments	$ 224,038	$ 117,143
Undistributed Assets and Payments	3,932	297
Other	1,036	-
Total Intragovernmental	$ 229,006	$ 117,440

Public:		
Advances to the States	$ 98,557	$ 97,613
Other Advances and Prepayments	149,397	5,691
Other	669	-
Total Public	$ 248,623	$ 103,304

Intragovernmental Other Assets are comprised of advance payments to other Federal Government entities for agency expenses not yet incurred and for goods or services not yet received and undistributed assets and payments for which DOT is awaiting documentation. Public Other Assets are comprised of advances to the States and advances to employees and contractors.

Note 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers:

DOT administers the following direct loan and/or loan guarantee programs:

(1) Railroad Rehabilitation Improvement Program
(2) Transportation Infrastructure Finance Innovation Act (TIFIA) Loan
(3) Federal Ship Financing Fund (Title XI)
(4) OST Minority Business Resource Center Guaranteed Loan Program

An analysis of loans receivable, allowance for subsidy costs, liability for loan guarantees, foreclosed property, modifications, reestimates, and administrative costs associated with the direct loans and loan guarantees is provided in the following sections:

Loans Receivable and Related Foreclosed Property, Net:

(Dollars in Thousands)

FY 2004	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance	Value of Assets Related to Loans Receivable
Direct Loan Programs Prior to FY 1992					
(1) Railroad Rehab Improv	$ 30,593	$ 981	$ -	$ -	$ 31,574
	-	-	-	-	-
Subtotal	$ 30,593	$ 981	$ -	$ -	$ 31,574
Direct Loan Programs After FY 1991					
(1) Railroad Rehab Improv	$ 333,873	$ 4,539	$ -	$ (24,382)	$ 314,030
(2) TIFIA Loan	190,162	7,738	-	(9,114)	188,786
Subtotal	$ 524,035	$ 12,277	$ -	$ (33,496)	$ 502,816
Defaulted Guaranteed Loans After FY 1991					
(3) Fed Ship Fin Fund	$ 431,967	$ 5,876	$ 7,000	$ (375,146)	$ 69,697
	-	-	-	-	-
Subtotal	$ 431,967	$ 5,876	$ 7,000	$ (375,146)	$ 69,697
Total Loans Receivable	$ 986,595	$ 19,134	$ 7,000	$ (408,642)	$ 604,087

Loans Receivable and Related Foreclosed Property, Net:

(Dollars in Thousands)

FY 2003

Direct Loan Programs Prior to FY 1992	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance	Value of Assets Related to Loans Receivable
(1) Railroad Rehab Improv	$ 34,962	$ 981	$ -	$ -	$ 35,943
	-	-	-	-	-
Subtotal	$ 34,962	$ 981	$ -	$ -	$ 35,943
Direct Loan Programs After FY 1991					
(1) Railroad Rehab Improv	$ 111,718	$ 2,201	$ -	$ 544	$ 114,463
(2) Alameda Corridor	400,000	151,842		145,380	697,222
(3) TIFIA Loan	102,622	-	-	(9,115)	93,507
Subtotal	$ 614,340	$ 154,043	$ -	$ 136,809	$ 905,192
Defaulted Guaranteed Loans After FY 1991					
(4) Fed Ship Fin Fund	$ 429,088	$ 5,977	$ 14,000	$ (369,377)	$ 79,688
	-	-	-	-	-
Subtotal	$ 429,088	$ 5,977	$ 14,000	$ (369,377)	$ 79,688
Total Loans Receivable	$ 1,078,390	$ 161,001	$ 14,000	$ (232,568)	$ 1,020,823

Liability for Loan Guarantees (Present Value Method):

Loan Guarantee Programs	FY 2004 Total Liabilities for Loan Guarantees	FY 2003 Total Liabilities for Loan Guarantees
(3) Fed Ship Fin Fund	$ 378,061	$ 292,740
(4) OST Minority Business Res	551	536
Total	$ 378,612	$ 293,276

Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans)

Beginning Balance, Changes, and Ending Balance	FY 2004	FY 2003
Beginning Balance of the Subsidy Cost Allowance	$ (155,038)	$ (7,876)
Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component:		
Interest Rate Differential Costs	-	-
Default Costs (net of recoveries)	-	-
Fees and Other Collections	18,333	-
Other Subsidy Costs	-	(1,238)
Total of the Above Subsidy Expense Components	$ 18,333	$ (1,238)
Adjustments:		
Loan Modifications	-	-
Fees Received	-	-
Foreclosed Property Acquired	-	-
Loans Written Off	-	-
Subsidy Allowance Amortization	86,876	-
Other	-	-
Ending Balance of the Subsidy Cost Allowance Before Reestimates	$ (49,829)	$ (9,114)
Add or Subtract Subsidy Reestimates by Component:		
Interest Rate Reestimate	16,333	-
Technical/Default Reestimate	-	-
Total of the Above Reestimate Components	$ 16,333	$ -
Ending Balance of the Subsidy Cost Allowance	$ (33,496)	$ (9,114)

Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Loan Guarantees)

Beginning Balance, Changes, and Ending Balance	FY 2004	FY 2003
Beginning Balance of the Loan Guarantee Liability	$ (293,276)	$ (384,288)
Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component:		
Interest Supplement Costs	-	-
Default Costs (net of recoveries)	3,509	(27,216)
Fees and Other Collections	(27,774)	(34,184)
Other Subsidy Costs	-	-
Total of the Above Subsidy Expense Components	$ (24,265)	$ (61,400)
Adjustments:		
Loan Guarantee Modifications	-	-
Fees Received	-	-
Interest Supplements Paid	-	-
Foreclosed Property and Loans Acquired	-	14,000
Claim Payments to Lenders	-	-
Interest Accumulation on the Liability Balance	(16,140)	(15,118)
Other	-	-
Ending Balance of the Loan Guarantee Liability Before Reestimates	$ (333,681)	$ (446,806)
Add or Subtract Subsidy Reestimates by Component:		
Interest Rate Reestimate	-	-
Technical/Default Reestimate	(44,931)	153,530
Total of the Above Reestimate Components	$ (44,931)	$ 153,530
Ending Balance of the Loan Guarantee Liability	$ (378,612)	$ (293,276)

The Federal Credit Reform Act of 1990 divides direct loans and loan guarantees into two groups: (1) Pre-1992 means the direct loan obligations or loan guarantee commitments made prior to FY 1992 and the resulting direct loans obligations or loan guarantees, and (2) Post-1991 means the direct loan obligations or loan guarantee commitments made after FY 1991 and the resulting direct loans or loan guarantees. The Act provides that, for direct loan obligations or loan guarantee commitments made after FY 1991, the present value of the subsidy costs (which arises from interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets, and other cash flows) associated with direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed. Direct loans are reported net of an allowance for subsidy at present value, and loan guarantee liabilities are reported at present value. Foreclosed property is valued at the net realizable value. Loans receivable, net, or their value of assets related to direct loans, is not the same as the proceeds that they would expect to receive from selling their loans.

As of June 30, 2004, the Maritime Administration is contingently liable for guaranteed ship and shipyard improvements loans issued under the Title XI program. As of the end of the period, there were outstanding $28 million in pre-credit reform loan guarantees and $3.6 billion in issued loans and commitments for post-credit reform loans.

There were no default claims on the Government to date in FY 2004 for the Maritime Administration. During FY 2004 to date there were two new loan guarantees issued in the amount of $165.6 million for the Maritime Administration.

Note 8. Inventory and Related Property:

(Dollars in Thousands)

	Cost	Allowance for Loss	FY 2004 Net	FY 2003 Net
Inventory:				
Inventory Held for Current Sale	$ 78,396	$ -	$ 78,396	$ 89,443
Excess, Obsolete and Unserviceable Inventory	18,801	5,839	12,962	14,042
Inventory Held for Repair	405,171	83,660	321,511	330,189
Other	13,632	-	13,632	13,632
Total Inventory	$ 516,000	$ 89,499	$ 426,501	$ 447,306
Operating Materials and Supplies:				
Items Held for Use	$ 420,507	$ 16,873	$ 403,634	$ 446,497
Items Held in Reserve for Future Use	69,644	-	69,644	-
Excess, Obsolete and Unserviceable Items	80,160	68,541	11,619	15,409
Items Held for Repair	5,738	3,623	2,115	-
	-	-	-	-
Total Operating Materials & Supplies	$ 576,049	$ 89,037	$ 487,012	$ 461,906
Total Inventory and Related Property			$ 913,513	$ 909,212

All DOT inventory is in FAA and the OST Working Capital Fund. Valuation methods used include moving weighted average, standard price/specific identification, and last acquisition price.

DOT operating materials and supplies are in FAA and MARAD. Valuation methods used include historical cost, last acquisition price, standard price/specific identification, standard repair cost, weighted average, and moving weighted average. The only restriction on use is that FAA is not permitted to donate.

Note 9. General Property, Plant and Equipment:

(Dollars in Thousands)

Major Classes	Service Life *	Acquisition Value	Accumulated Depreciation	FY 2004 Net Book Value	FY 2003 Net Book Value
Land and Improvements		$ 97,575	$ 243	$ 97,332	$ 96,155
Buildings and Structures	Various	4,178,432	2,069,893	2,108,539	2,035,486
Furniture and Fixtures	Various	48,751	20,095	28,656	268
Equipment	Various	13,456,983	6,335,065	7,121,918	6,651,608
ADP Software	Various	119,175	67,403	51,772	106,015
Electronics	6-10	738	724	14	66
Assets Under Capital Lease	Various	125,923	71,807	54,116	62,595
Leasehold Improvements	Various	51,755	17,881	33,874	39,957
Aircraft	11-20	409,940	259,631	150,309	175,724
Ships and Vessels	>20	1,734,757	1,040,997	693,760	794,099
Small Boats	Various	24,888	23,935	953	1,420
Other Vehicles	1-5	27	27	-	22
Construction in Progress		5,037,358	-	5,037,358	4,425,855
Property Not in Use		19,202	7,867	11,335	13,913
Other Misc. Property		7,285	1,862	5,423	4,578
Total		$ 25,312,789	$ 9,917,430	$ 15,395,359	$ 14,407,761

Depreciation is computed using the straight line method. Net book value of multi-use heritag assets is now included in general property, plant and equipment, while "physical quantity" information is included in the Heritage Assets section of Required Supplemental Stewardship Information.

*** Key:**

Range of Service Life

1-5	- 1 to 5 years
6-10	- 6 to 10 years
11-20	- 11 to 20 years
>20	- Over 20 years

Note 10. Liabilities Not Covered by Budgetary Resources:

(Dollars in Thousands)

Intragovernmental:

	FY 2004	FY 2003 (Restated)
Accounts Payable	$ -	$ 673
Debt	363,583	849,690
Other Liabilities	569,782	1,009,065
Total Intragovernmental	$ 933,365	$ 1,859,428
Accounts Payable	$ 44	$ 86
Federal Employee and Veterans' Benefits Payable	1,018,541	1,112,550
Environmental and Disposal Liabilities	1,135,163	1,344,453
Other Liabilities	980,690	954,132
Total Liabilities Not Covered by Budgetary Resources	$ 4,067,803	$ 5,270,649
Total Liabilities Covered by Budgetary Resources	9,340,146	8,488,522
Total Liabilities	$ 13,407,949	$ 13,759,171

Adjustments were needed to the amounts previously reported on the Balance Sheet at September 30, 2003. The adjustments related to a correction of an error of MARAD's Ocean Freight Differential appropriation, which resulted in an increase of $718 million to Total Intragovernmental Liabilities.

Note 11. Debt:

(Dollars in Thousands)

Intragovernmental Debt:	FY 2003 Ending Balance	Net Change During Fiscal Year	FY 2004 Ending Balance
Debt to the Treasury	$ 1,109,738	$ 37,791	$ 1,147,529
Debt to the Fed Financing Bank	3,077	-	3,077
Total Intragovernmental Debt	$ 1,112,815	$ 37,791	$ 1,150,606

Net Change During Fiscal Year includes new borrowing, repayments and net change in accrued payables. Debt to the Treasury and to the Federal Financing Bank is for FRA direct loans to railroads, for FHWA direct loans under the Transportation Infrastructure Finance and Innovation Act (TIFIA), for MARAD Title XI guaranteed loans, and for the FAA Aircraft Purchase Loan Guarantee Program.

Note 12. Other Liabilities:

(Dollars in Thousands)

Intragovernmental:	Non-Current	Current	FY 2004 Total
Advances and Prepayments	$ 2,635,418	$ 238,309	$ 2,873,727
Accrued Pay and Benefits	1,243	40,112	41,355
Undisbursed Loans	166,915	148	167,063
FECA Billings	121,895	96,248	218,143
Uncleared Disbursements and Collection	-	1,002	1,002
Deferred Credits	-	-	-
Deposit Funds	-	6,233	6,233
Other Accrued Liabilities	356,460	4,322	360,782
Total Intragovernmental	$ 3,281,931	$ 386,374	$ 3,668,305
Public:			
Accrued Unbilled State Payments	$ -	$ -	$ -
Other Accrued Unbilled Payments	-	60,705	60,705
Accrued Pay and Benefits	557,084	216,800	773,884
Legal Claims	215	26,190	26,405
Deferred Credits	51,518	-	51,518
Capital Leases	46,909	13,663	60,572
Advances and Prepayments	1,534	37,105	38,639
Uncleared Disbursements and Collection	229	(3,771)	(3,542)
Deposit Funds	-	16,933	16,933
Other Custodial Liability	-	-	-
Other Accrued Liabilities	144,347	119,632	263,979
Total Public	$ 801,836	$ 487,257	$ 1,289,093

FY 2003 (Restated)

Intragovernmental:	Non-Current	Current	FY 2003 Total
Advances and Prepayments	$ -	$ 2,864,363	$ 2,864,363
Accrued Pay and Benefits	1,209	34,332	35,541
Undisbursed Loans	-	157,743	157,743
FECA Billings	120,199	94,453	214,652
Uncleared Disbursements and Collection	-	9,188	9,188
Deferred Credits	-	19	19
Deposit Funds	-	(23,787)	(23,787)
Other Accrued Liabilities	793,276	70,918	864,194
Total Intragovernmental	$ 914,684	$ 3,207,229	$ 4,121,913
Public:			
Accrued Unbilled State Payments	$ -	$ 127,085	$ 127,085
Other Accrued Unbilled Payments			-
Accrued Pay and Benefits	123,893	222,132	346,025
Legal Claims	54,506	25,335	79,841
Deferred Credits	-	10,017	10,017
Capital Leases	59,685	9,159	68,844
Advances and Prepayments	-	15,427	15,427
Uncleared Disbursements and Collection	-	(73,221)	(73,221)
Deposit Funds	-	(873)	(873)
Other Custodial Liability	-	-	-
Other Accrued Liabilities	206,540	11,081	217,621
Total Public	$ 444,624	$ 346,142	$ 790,766

Accrued pay and benefits pertain to unpaid pay and benefits, and may be either current or non-current. Agency expenses for payments made under the Federal Employees Compensation Act (FECA) are forwarded to the Department of Labor (DOL). Funding for FECA is normally appropriated to agencies in the fiscal year two years subsequent to the actual FECA billing from DOL.

Adjustments were needed to the amounts previously reported on the Balance Sheet at September 30, 2003. The adjustments related to a correction of an error of MARAD's Ocean Freight Differential appropriation, which resulted in an increase of $718 million to Other Intragovernmental Liabilities.

Note 13. Environmental and Disposal Liabilities:

(Dollars in Thousands)				
Public:		FY 2004		FY 2003
Environmental Cleanup Liabilities:				
FAA Environmental Remediation	$	366,762	$	372,125
FAA Environmental Cleanup and Decommissioning		239,499		249,828
MARAD Environmental Cleanup (PCB, Lead, Oil)		528,902		722,500
Total Public	$	1,135,163	$	1,344,453

Environmental cleanup generally occurs under the Resource Conservation and Recovery Act of 1976 (RCRA), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA or Superfund), or the Toxic Substances Control Act (TSCA). Environmental remediation includes the fuel storage tank program, fuels, solvents, industrial, and chemicals, and other environmental cleanup associated with normal operations or as a result of an accident. Cost estimates for environmental and disposal liabilities are not adjusted for inflation and are subject to revision as a result of changes in technology and environmental laws and regulations.

The current law requires all non-retention ships to be disposed of by the end of FY 2006. If an extension of this requirement is not granted and/or foreign scrapping is not available, then MARAD could realize a substantial increase in this unfunded environmental liability.

Note 14. Contingencies:

Legal Claims. As of September 30, 2004 and 2003, FAA's contingent liabilities for asserted and pending legal claims reasonably possible of loss were estimated at $76.7 million and $325.5 million, respectively. FAA does not have material amounts of known unasserted claims.

Grant Programs. FAA has legal authority to issue Letters of Intent (LOIs) to enter into Airport Improvement Program (AIP) grant agreements. Through September 30, 2004, FAA issued LOIs covering FY 1988 through FY 2014 totaling $4.7 billion. As of September 30, 2004, FAA had obligated $3.3 billion of this total amount, leaving $1.4 billion unobligated. As of September 30, 2003, LOIs covering FY 1988 through FY 2014 totaled $4.5 billion. Of this amount, FAA had obligated $3.0 billion, leaving $1.5 billion unobligated as of September 30, 2003.

FY 2004 AIP grant authority totaled $3.4 billion, including $2.0 billion in entitlements to specific locations. Of entitlements to specific locations, sponsors have claimed $1.6 billion, and $416 million remains available from unused or newly-enacted contract authority to those sponsors through FY 2006, or in the case of non-hub primary airport locations, through FY 2007.

In FY 2003, AIP grant authority was $3.3 billion, including $2.1 billion in entitlements to specific locations. Of entitlements to specific locations, the sponsors had claimed $1.8 billion, and $336 million remained available from unused or newly-enacted contract authority to those sponsors through FY 2005, or in the case of non-hub primary airport locations, through FY 2006.

FHWA pre-authorizes states to establish construction budgets without having received appropriations from Congress for such projects. FHWA does not guarantee the ultimate funding to the states for these "Advance Construction" projects and, accordingly, does not obligate any funds for these projects. When funding becomes available to FHWA, the states can then apply for reimbursement of costs that they have incurred on such project, at which time FHWA can accept or reject such request. At September 30, 2004, $36 billion has been pre-authorized under these arrangements; however, no liability is reflected in the HTF financial statements at September 30, 2004 and 2003 for these arrangements.

FTA executes Full Funding Grant Agreements (FFGAs) under its Capital Investment program (New Starts) authorizing transit authorities to establish project budgets and incur costs with their own funds in advance of annual appropriations by Congress. As of September 30, 2004 and 2003, approximately $2.534 billion and $2.469 billion in Section 5309 New Starts funds has been committed under FFGAs, but not yet appropriated by Congress. However, no liability is reflected in the DOT financial statements at September 30, 2004 and 2003 for these agreements.

Contract Options and Negotiations. As of September 30, 2004 and 2003, FAA had contract options of $10.9 billion and $32.8 billion, respectively. These contract options give FAA the unilateral right to purchase additional equipment or services or to extend the contract terms. Exercising this right would require the obligation of funds in future years.

Aviation Insurance Program. FAA is authorized to issue hull and liability insurance under the Aviation Insurance Program for air carrier operations for which commercial insurance is not available on reasonable terms and when continuation of U.S. flag commercial air service is necessary in the interest of air commerce, national security, and the U.S. foreign policy. FAA may issue (1) non-premium insurance, and (2) premium insurance for which a risk-based premium is charged to the air carrier.

FAA maintains standby non-premium war-risk insurance policies for 39 carriers having approximately 1,228 aircraft available for Defense or State Department charter operations.

On September 22, 2001, the premium insurance program was expanded by the Air Transportation Safety and System Stabilization Act to include all scheduled domestic air carriers. Under this program, FAA initially provided third party liability war-risk insurance to U.S. carriers whose coverage was cancelled following the terrorist attacks of September 11, 2001. Public Law 108-11 (and subsequent amendments) required FAA to extend policies in effect on July 19, 2002, until August 31, 2004 and gave the Secretary of Transportation discretion to further extend coverage through December 31, 2004. It also mandated provision of hull loss and passenger and third party war risk liability insurance for those policies. There are 77 FAA premium war-risk policies. Insured air carrier per occurrence limits for combined hull and liability coverage range from $100 million to $4 billion. The period of coverage in effect as of September 30, 2004 was from September 1, 2004 through December 31, 2004.

Current war risk coverage is intended as a temporary measure to provide insurance to qualifying carriers while allowing time for commercial insurance market to stabilize. Premiums under this program are established by FAA and are based on the value of policy coverage limits and aircraft activity. However, airlines' total charge for coverage is subject to a cap mandated by Congress.

During FY 2004 and FY 2003, FAA recognized insurance premium revenue of $145.6 million and $124.0 million, respectively. Premiums are recognized as revenue on a straight-line basis over the period of coverage. Premium revenue is reported on the Consolidated Statement of Net Cost, under "Regional and Center Operations and Other Programs."

Typically, the maximum liability for both hull loss and liability, per aircraft, is $1.75 billion. No claims for losses were pending as of September 30, 2004, or 2003. In the past, FAA has insured a small number of air carrier operations and established a maximum liability for losing one aircraft. Since the inception of the Aviation Insurance Program dating back to 1951, only four claims, all involving minor dollar amounts, have been paid. Because of the unpredictable nature of war risk and the absence of historical claims experience on which to base an estimate, no reserve for insurance losses has been recorded.

Overflight User Fees. FAA issued an interim final rule (IFR), effective on August 1, 2000, followed by a Final Rule, effective on August 20, 2001, that required certain aircraft operators to pay fees for air traffic control and related services provided by FAA to aircraft that operate in U.S.-controlled airspace but neither take off nor land in the U.S. The authority to charge these fees is contained in the Federal Aviation Reauthorization Act of 1996, as amended. Several airlines and an air carrier association challenged this IFR in the U.S. Court of Appeals. FAA issued the Final Rule while the IFR litigation was still pending. The same group of plaintiffs then brought suit against the Final Rule, and the Court combined the two cases. FAA had recognized $19.8 million in FY 2003, before it ceased billing in light of an adverse decision in the U.S. Court of Appeals on April 8, 2003. Congress has since enacted, in the FAA Reauthorization Act signed by the President on December 12, 2003, a provision on overflight fees that affects past and future fee collections. In July 2004, the FAA Administrator issued an Administrative Order determining the disposition of all fees collected under both rules. Concurrently, a settlement was reached with the plaintiff that will allow FAA to resume collection of fees in FY 2005.

Environmental. FAA is a party to two major environmental remediation projects in which the extent of the liability is unknown. A study is in process to determine the magnitude and scope of the remediation required at the two sites. Of the total environmental liability reported as of September 30, 2004, and 2003, the amount related to these two sites is $49.3 million and $61.6 million, respectively. This liability includes FAA's share of the known remediation cost and the cost to complete the study.

Note 15. Net Cost by Program:

(Dollars in Thousands)

Program Costs	FY 2004	FY 2003 (Restated)
Surface		
Highway Surface Transportation	$ 7,256,287	$ 7,373,737
Mass Transit	8,195,431	7,444,373
National Highway System	6,767,454	6,414,436
Interstate Maintenance	3,933,214	4,032,790
Bridge Program	3,378,600	3,318,410
Highway Minimum Guarantee	2,516,100	2,832,259
Other Highway Trust Fund Programs	1,665,231	2,045,031
Other Highway Programs	217,537	197,783
High Priority Projects	1,183,664	1,328,515
Federal Railroad Administration Grants	1,187,760	1,049,776
Congestion Mitigation and Air Quality	937,166	884,383
Highway Safety Programs	780,926	630,365
Appalachian Development Highway	261,943	323,066
DOT Allocated Highway Programs	23,144	384,169
Department of Interior Allocated Highway Programs	401,112	303,821
Federal Lands Highways	221,599	369,569
Federal Motor Carrier Safety	396,829	299,038
Highway Research and Development	816,813	242,539
Woodrow Wilson Bridge	119,603	147,601
Research and Special Programs Administration	120,869	115,766
Rail Safety and Operations	117,490	127,934
Highway Planning	142,232	139,314
Highway Emergency Relief	177,015	172,029
Highway Minimum Allocation	68,288	56,441
Bureau of Transportation Statistics	35,810	35,388
Other Rail Programs	31,014	29,962
Rail Research and Development	24,978	29,548
Next Generation High Speed Rail	36,213	27,656
Alaska Railroad	22,599	23,496
Surface Transportation Board	20,478	20,887
State Infrastructure Bank	-	14,440
National Coordinated Planning & Development Border Infrastructure	187,952	-
Alameda Corridor	41,728	-
Total Surface Program Costs	$ 41,287,079	$ 40,414,522

Air		
Air Traffic Services	$ 8,079,011	$ 7,651,038
Airports	2,977,068	2,786,493
Aviation Security	-	47,250
Regulation and Certification	939,728	942,009
Research and Acquisition	-	442,922
Other Federal Aviation Administration Programs	185,660	117,149
Commercial Space	12,527	11,725
Total Air Program Costs	$ 12,193,994	$ 11,998,586
Maritime		
Maritime Operations and Training	(7,845)	$ 520,185
Maritime Guaranteed Loan	10,793	(31,086)
Maritime Security Program	98,580	97,053
Maritime Ocean Freight Differential Program	147,558	114,033
Maritime Vessel Operations Revolving Fund	(18,066)	(4,902)
Maritime Operating Differential Subsidy	194	144,340
Other Maritime Programs	5,947	(255)
Total Maritime Program Costs	$ 237,161	$ 839,368
Cross-Cutting		
Office of the Secretary Working Capital Fund	$ (2,274)	$ (3,508)
Volpe National Transportation Systems Center	3,020	3,679
Total Cross-Cutting Program Costs	$ 746	$ 171

Adjustments were needed to the amounts previously reported on the Statement of Net Cost at September 30, 2003. The adjustments related to a correction of an error of MARAD's Ocean Freight Differential appropriation, which resulted in an increase of $143 million to Maritime Transportation's Total Intragovernmental Net Costs.

In order to provide more accurate reporting, FHWA changed the manner in which it allocated costs to the Highway Trust Fund programs in FY 2004. Such changes involved the method of categorizing projects within programs and a revision to the allocation of the grant accrual to each program. The "Other Highway Trust Fund Programs" category is comprised of small miscellaneous projects. This new methodology was not retroactively applied to the FY 2003 amounts.

Note 16. Gross Cost and Earned Revenue by Budget Functional Classification:

Gross Cost and Earned Revenue by Budget Functional Classification:

(Dollars in Thousands)

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
FY 2004			
054 Defense-Related Activities	$ 99,119	$ -	$ 99,119
401 Ground Transportation	41,479,699	313,489	41,166,210
402 Air Transportation	12,506,942	312,948	12,193,994
403 Water Transportation	399,930	261,888	138,042
407 Other Transportation	857,669	677,027	180,642
808 Other General Government	283,540	7,334	276,206
Total	$ 55,626,899	$ 1,572,686	$ 54,054,213
FY 2003 (Restated)			
054 Defense-Related Activities	$ 131,417	$ 5	$ 131,412
304 Pollution Control and Abatement	61,282	-	61,282
401 Ground Transportation	40,488,171	189,415	40,298,756
402 Air Transportation	15,203,104	1,060,252	14,142,852
403 Water Transportation	3,509,829	512,682	2,997,147
407 Other Transportation	988,492	740,658	247,834
808 Other General Government	256,770	18,528	238,242
Total	$ 60,639,065	$ 2,521,540	$ 58,117,525

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification:

FY 2004			
054 Defense-Related Activities	$ -	$ -	$ -
401 Ground Transportation	553,081	(1,075)	554,156
402 Air Transportation	2,380,081	84,246	2,295,835
403 Water Transportation	22,047	260,710	(238,663)
407 Other Transportation	99,526	670,378	(570,852)
808 Other General Government	110,076	7,334	102,742
Total	$ 3,164,811	$ 1,021,593	$ 2,143,218
FY 2003 (Restated)			
054 Defense-Related Activities	$ 3,016	$ 5	$ 3,011
304 Pollution Control and Abatement	11,281	-	11,281
401 Ground Transportation	417,629	15,629	402,000
402 Air Transportation	1,366,806	10,288	1,356,518
403 Water Transportation	826,240	502,141	324,099
407 Other Transportation	108,022	736,388	(628,366)
808 Other General Governmen	50,917	18,592	32,325
Total	$ 2,783,911	$ 1,283,043	$ 1,500,868

Adjustments were needed to the amounts previously reported on the Statement of Net Cost at September 30, 2003. The adjustments related to a correction of an error of MARAD's Ocean Differential appropriation, which resulted in an increase of $143 million to Maritime Transportation's Total Intragovernmental Net Costs.

Note 17. Statement of Changes in Net Position:

Prior Period Adjustments:

Prior Period Adjustments for FY 2004 are primarily due to MARAD's correction of an error for the Ocean Freight Differential appropriation. This restatement will reflect FY 2003 Statement of Changes in Net Position more accurately and reasonably.

Non-Exchange Revenue:

Highway Trust Fund (Dollars in Thousands)

Receipts

Excise Taxes and Other NonExchange Revenue (transferred from the general fund)

	FY 2004	FY 2003
Gasoline	$ 18,244,158	$ 21,207,711
Diesel and Special Motor Fuels	8,935,465	8,536,830
Trucks	3,237,017	3,053,139
Gasohol	5,716,127	2,740,664
Fines and Penalties	16,457	15,682
Other	-	-
FMCSA Revenue	-	(428)
IMPT Revenue	25	112
CMIA Interest	-	2,644
Total Taxes	$ 36,149,249	$ 35,556,354
Less: Transfers to Land and Water Conservation Fund	$ (1,000)	(1,000)
Transfers to General Fund	(111,350)	(118,572)
Transfers to Aquatic Reserve	(311,639)	(289,682)
Gross Taxes	35,725,260	35,147,100
Less: Refunds of Taxes (reimbursed to general fund)		
Diesel Powered Vehicle	$ -	$ -
Gasoline	(305,286)	(318,547)
Gasohol	(27,751)	(17,448)
Diesel	(625,821)	(642,428)
Special Motor Fuel	(1,342)	(766)
Gas to make Gasohol	(22,865)	(22,309)
Diesel Fuel Bus Use	(31,423)	(30,430)
Total Refunds of Taxes	$ (1,014,488)	$ (1,031,928)
Total Excise Taxes	$ 34,710,772	$ 34,115,172
Other Non-Exchange Revenue	13,556	-
Net Non-Exchange Revenue	$ 34,724,328	$ 34,115,172

The IRS collects various taxes on behalf of the Highway Trust Fund. These taxes can only be withdrawn as authorized by DOT appropriations. Treasury estimates the amount collected/ revenue recognized, and adjusts such estimates for actual quarterly collections. The IRS submits certificates of actual tax collections to FHWA six months after the quarter end and, accordingly, the HTF financial statements are adjusted to reflect such actual amounts at that time. Accordingly, total tax revenue recognized for the year ended September 30, 2004 and 2003 includes the Office of Tax Analysis (OTA) estimates of $9.0 billion at June 30, 2004 and $8.7 billion at September 30, 2004 and $9.2 billion at September 30, 2003.

FHWA management does not believe that the actual tax collections for the quarters ended June 30, 2004 and September 30, 2004 will be materially different than the OTA estimate of such collections for those quarters.

Federal Aviation Administration

Taxes and Other Non-Exchange Revenue:	FY 2004	FY 2003
Passenger Ticket	6,554,599	6,065,763
International Departure	1,455,529	1,517,807
Fuel (Air)	774,150	850,950
Waybill	498,871	399,396
Investment Income	446,956	570,873
Tax Refunds and Credits	(55,596)	(44,320)
Net Non-Exchange Revenue	$ 9,674,509	$ 9,360,469
Other Miscellaneous Net Non Exchange Revenue	$ (1,462)	$ 17,924
Total Non-Exchange Revenue	$ 44,397,375	$ 43,493,565

The IRS collects various excise taxes on behalf of FAA's Airport and Airway Trust Fund (AATF). These taxes can only be withdrawn as authorized by FAA appropriations. Twice a month, U.S. Treasury estimates the amounts collected, and adjusts the estimates by actual collections quarterly. Accordingly, the total taxes recognized in FY 2004 included OTA's estimate of $4.7 billion for the six months ended September 30, 2004. Total taxes recognized in FY 2003 included OTA's estimate of $2.9 billion for the quarter ending September 30, 2003.

FAA has been informed by the IRS that the estimated excise tax collections and the amount credited to the AATF for the benefit of the FAA, for the quarter ended June 30, 2004, may be understated by as much as $275 million. FAA has not recognized the potential understatement of $275 million since it is not enforceable until certified by the IRS. Therefore this represents a potential gain contingency at September 30, 2004. The estimated taxes and deposits to AATF will be adjusted to equal actual tax collections in December 2004.

Note 18. Statement of Budgetary Resources:

	(Dollars in Thousands) FY 2004	FY 2003
The amount of direct and reimbursable obligations incurred against amounts apportioned under Category A, B and Exempt from apportionment as of end of fiscal year:	$ 68,209,545	$ 70,701,950
Available Contract Authority as of end of fiscal year:	$ 32,731,813	$ 31,532,182
Adjustments during fiscal year to Beginning Balance of Budgetary Resources:		
Cumulative Authorizations in Excess of Obligation Limitation	$ -	$ (18,802)
Rescissions	(496)	1,503,704
Prior Year Recoveries	92,160	154,911
Temporarily Not Available	(199)	(2,293)
Cancelled Authority	1,965	28,782
Permanently Not Available	276,691	227,871
Offsetting Security Fee Collections	-	-
Lapsed Contract Authority	-	-
Liquidated Contract Authority	-	37,262,464
Other Adjustments	(39,040)	(19,939)
Total Adjustments to Budgetary Resources	$ 331,081	$ 39,136,698

Significant adjustments were needed to the amounts previously reported on the Statement of Budgetary Resources at September 30, 2003 for FAA's Airport and Airway Trust Fund and the Highway Trust Fund (HTF). The adjustments related to a change in reporting requirements from OMB, which the Bureau of Public Debt required reporting of un-invested tax collections as receipts unavailable for obligation. This change in classification results in the correction of an error in presentation and a restatement of the FY 2003 Budget Authority-Appropriations Received of $0.8 billion for FAA and $4.7 billion for HTF, decrease in Unobligated balance - beginning of period of $8.7 billion and $16.5 billion, respectively, and an offsetting reduction in Unobligated balance of $7.9 billion and $11.4 billion respectively.

The following table details specific line items being restated on the Combined Statement of Budgetary Resources.

	2003 Originally Stated	Effect of Restatement	2003 As Restated
	(Dollars in Thousands)		
Budgetary Resources:			
Appropriations Received	$ 61,508,409	$ 5,547,227	$ 67,055,636
Unobligated balance - beginning of period	64,778,217	(24,900,599)	39,877,618
Total Budgetary Resources	$ 128,238,448	$ (19,353,372)	$ 108,885,076
Status of Budgetary Resources:			
Unobligated balance available	$ 23,451,472	$ (7,951,688)	$ 15,499,784
Unobligated balance not available	34,315,499	(11,401,684)	22,913,815
Total Status of Budgetary Resources	$ 128,238,448	$ (19,353,372)	$ 108,885,076

Existence, Purpose, and Availability of Permanent Indefinite Appropriations:

FAA has permanent indefinite appropriations for the Facilities and Equipment, Grants-in-Aid, and Research, Development and and Engineering appropriations in order to fully fund special projects that were on-going and spanned several years.

Additional Disclosures:

Unobligated balances of budgetary resources for unexpired accounts are available in subsequent years until until expiration, upon receipt of an apportionment from OMB. Unobligated balances of expired accounts are not available.

There are no material differences between the information required by SFFAS Number 7 and the amounts described as "actual" in the "Budget of the United States Government" for FY 2005, which is not final at this time.

Note 19. Incidental Custodial Collections:

Revenue Activity: (Dollars in Thousands)

Sources of Cash Collections:	FY 2004	FY 2003
Miscellaneous Receipts	$ 19,157	$ 23,748
User Fees	-	7,388
Fines, Penalties and Forfeitures	11,022	8,642
General Fund Proprietary	-	3,031
Refunds, Recoveries & Cancelled Checks & Accounts	-	3,147
USCG Registration and Filing Fees	-	335
Miscellaneous Collections	-	-
Total Cash Collections	$ 30,179	$ 46,291
Accrual Adjustment	-	(1,926)
Total Custodial Revenue	$ 30,179	$ 44,365

Disposition of Collections:	FY 2004	FY 2003
Transferred to Treasury (General Fund)	$ 30,179	$ 46,291
(Increase) Decrease in Amounts to be Transferred	-	(1,926)
Retained by DOT	-	-
Net Custodial Revenue Activity	$ -	$ -

Note 20. Saint Lawrence Seaway Development Corporation:

Condensed Information:

	(Dollars in Thousands)	
	FY 2004	FY 2003
Cash and Short-Term Time Deposits	$ 14,084	$ 14,109
Long-Term Time Deposits	1,210	392
Accounts Receivable	82	63
Inventories	246	255
Property, Plant and Equipment	78,329	80,126
Deferred Charges	2,234	1,989
Other Assets	538	563
TOTAL ASSETS	**$ 96,723**	**$ 97,497**
Current Liabilities	$ 2,428	$ 1,776
Actuarial Liabilities	2,234	1,989
TOTAL LIABILITIES	**$ 4,662**	**$ 3,765**
Invested Capital	$ 93,313	$ 95,099
Cumulative Results of Operations	(1,252)	(1,367)
TOTAL NET POSITION	**$ 92,061**	**$ 93,732**
TOTAL LIABILITIES AND NET POSITION	**$ 96,723**	**$ 97,497**